



# External Audit Report

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Audit of Houston-Galveston Area Council  
Metropolitan Planning Organization

TxDOT Compliance Division

## **Objective**

To determine whether the Houston-Galveston Area Council (H-GAC) Metropolitan Planning Organization (MPO) has implemented necessary financial controls to ensure appropriate grant and loan funding management and to determine whether payments to the MPO are supported by sufficient documentation and are allowable per applicable agreements.

## **Overall Conclusion**

Overall, H-GAC MPO has implemented necessary controls to ensure appropriate grant funding management. Payments to the MPO are supported by sufficient documentation and are allowable per applicable federal requirements and TxDOT agreements. There are opportunities for H-GAC MPO to enhance internal processes related to subrecipient risk assessments and expense reimbursement requests. Additionally, there are opportunities for H-GAC MPO to update contract templates and award agreements with current federal provisions and requirements.

H-GAC's financial management system ensures separation of accounts between H-GAC and the MPO. The system identifies Federal awards received and expended and the Federal programs under which they were awarded. H-GAC procedures include federal requirements related to procurement, payments, and the determination of cost allowability. The H-GAC indirect cost and benefit rates were reviewed and approved by the appropriate federal cognizant agency, and cost pools are appropriately allocated. All contractors and subrecipients of H-GAC MPO are subject to possible pre-award reviews, desk reviews, and site visits by H-GAC Internal Audit staff based on an undocumented risk assessment.

H-GAC MPO Management's responses and action plans are included in Appendix 1 beginning on page 8 of this report.

## **Project Information**

This audit was conducted for the Transportation Planning & Programming Division, Houston District, TxDOT Administration, and the Chief Audit and Compliance Officer. The audit was included in the fiscal year 2018 Compliance Division External Audit work plan and was performed by Naima Hafeez (Engagement Lead), Gail Ates, Tasha Foote, and Cristina Christensen. Engagement fieldwork was conducted from April 2018 through July 2018.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

## Background

Urban areas in the United States with populations greater than 50,000 residents are represented by a MPO, which has primary responsibility to carry out the area's transportation planning process and establish transportation priorities.

Governor William P. Clements, Jr. designated H-GAC as the area's MPO on September 9, 1988. In 2012, TxDOT, H-GAC and the MPO entered an agreement designating H-GAC as the MPO fiscal agent with responsibility for supervising and evaluating the MPO Transportation Planning Director. H-GAC's Transportation Department and the Transportation Policy Council (TPC) serve as the MPO (staff and policy board, respectively) for Harris, Montgomery, Liberty, Chambers, Galveston, Brazoria, Fort Bend and Waller counties. The TPC is comprised of members representing cities, counties, TxDOT, and other transportation interests. The TPC provides policy guidance and overall coordination of the transportation planning activities within the region; the H-GAC Board of Directors is responsible for H-GAC general policies and programs.

During H-GAC fiscal years 2016 and 2017, TxDOT reimbursed H-GAC MPO more than \$33,000,000 on 27 projects. Projects primarily focused on transportation planning, congestion mitigation, and clean vehicles. TxDOT's Houston District (HOU), Transportation Planning & Programming Division (TPP), Public Transportation Division (PTN), and Traffic Operations Division (TRF) awarded approximately \$50,000,000 in funding to the HGAC MPO during this period.

## Scope

The scope of this audit included current processes and procedures implemented by H-GAC and the MPO to manage TxDOT funds, and requests for reimbursements submitted to TxDOT between January 1, 2016 and December 31, 2017.

## Methodology

- Gained an understanding of H-GAC MPO operating structure.
- Interviewed key HOU, PTN, TRF and TPP personnel.
- Interviewed key H-GAC personnel in the Transportation Department (MPO), Finance Department, Internal Audit Department, Program Operations Department, and Community & Environmental Planning Department.
- Reviewed the H-GAC financial management system to verify accounts identify federal awards expended and associated federal programs.
- Reviewed H-GAC's Accounting & Financial Policies and Procedures Manual, Procurement Policy and Procedure Manual, and Internal Audit Subrecipient Monitoring Procedures.
- Reviewed H-GAC MPO's standard contract templates.

- Verified key H-GAC MPO project personnel attended TxDOT's Local Government Projects (LGP) training.
- Tested whether payments to H-GAC MPO were supported by sufficient documentation and were allowable per applicable grant agreements, federal, and state requirements.
- Reviewed the H-GAC indirect cost rate, cost allocation plans, and cost pools for required approvals and appropriate allocation.

## Criteria

- Title 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Standards for Internal Control in the Federal Government (Green Book).
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework.
- Texas Administrative Code, Title 43, Part I, Chapter 10: Ethical Conduct by Entities doing Business with the Department.
- Funding agreements and amendments between TxDOT and the MPO.
- LGP Policy Manual.
- H-GAC Policies and Procedures.

## Results

### Subrecipient Monitoring

Internal Audit stated it uses an informal risk assessment to determine subrecipient monitoring levels; however, the risk assessment and determination of the appropriate level of monitoring is not documented. Per 2 CFR 200.331, pass-through entities must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. H-GAC's Internal Audit Director asserted subrecipient monitoring level is based on risk factors such as dollar amount of the agreement, entity type (i.e. private, governmental), Single Audit performance, previous year monitoring, complexity of program requirements, and historical problems or concerns regarding the entity. Since the risk assessment is not documented, auditors were unable to verify that each subrecipient's risk of noncompliance was assessed and how it was used to determine monitoring activities for each subrecipient.

H-GAC has established processes to evaluate and monitor subrecipients for appropriate controls and compliance with federal regulations and program requirements. The Internal Audit Department conducts site visits, desk reviews, pre-award reviews, and follow-up on Single Audit findings, and H-GAC program staff provides day-to-day monitoring and technical

assistance to subrecipients. However, an informal risk assessment process can result in inconsistent assessments and monitoring levels, increasing the risk of subrecipient non-compliance or fraudulent activities not being detected.

*Recommendation: It is recommended that H-GAC document its subrecipient risk assessment and the determination of necessary monitoring activities for each subrecipient.*

#### Subrecipient Agreements

H-GAC does not include all required award information in its subrecipient agreements. Title 2 CFR 200.331 mandates pass-through entities identify to the subrecipient the federal award information, including the subrecipient's Data Universal Numbering System number, Federal Award Date, Catalog of Federal Domestic Assistance (CFDA) number and name, and the indirect cost rate for the Federal award. We reviewed agreements with four subrecipients in which H-GAC had conducted a site visit and noted each agreement was missing the required information listed above. In addition to non-compliance with federal requirements, failure to provide this information to subrecipients creates a risk of inaccurate reporting of federal expenditures on H-GAC's and the respective subrecipients' Schedule of Federal Expenditures.

*Recommendation: H-GAC should update its processes and templates to ensure subrecipient agreements include all required federal award information. H-GAC should notify current subrecipients of required information if it was not provided in award agreements.*

#### Training

Two of nine H-GAC MPO personnel leading TxDOT projects have not attended, or do not report directly to an individual who has attended, TxDOT's Local Government Project (LGP) Procedures training. Per TxDOT's LGP Policy Manual, local governments must assign an individual qualified in this training to each project funded through an Advanced Funding Agreement. The course provides training related to TxDOT contract terms, state and federal regulations, and the project development process. Qualified personnel are required to take the course at least once every three years.

*Recommendation: H-GAC should ensure all key project personnel assigned to TxDOT projects complete the required LGP training course every three years, as required.*

#### Expenditures

Auditors tested 57 reimbursed cost items, totaling \$730,810, for sufficient documentation and compliance with federal and state requirements and applicable grant agreements. Cost items were sampled from vouchers representing 11 projects and totaling \$2,932,785.

Selected vouchers represent 9% of the \$33,115,314 reimbursed during the scope period. Items tested were allowable and adequately supported; however, 8 items, totaling \$27,322, were submitted for reimbursement more than 90 days after costs were incurred. These items included employee salaries and training costs, indirect costs, and three vendor invoices.

Per the Local Transportation Project - Non-Construction Advance Funding Agreement between TxDOT and H-GAC, H-GAC is authorized to submit reimbursement requests no later than 90 days after costs are incurred. If costs are submitted beyond this timeframe, and if federal funding is reduced as a result, TxDOT is not responsible for reimbursing the costs. Additionally, significant periods of time between cost incurrence and submission can misrepresent remaining project budgets. Delayed cost reimbursement requests may also create complexities in reviewing and reconciling costs against budgets and prior reimbursements.

*Recommendation: H-GAC should implement procedures that ensure costs are submitted for reimbursement within required time periods after costs are incurred.*

#### Contract Templates

H-GAC MPO subcontract and subrecipient agreement templates contain outdated references and do not contain all provisions required by Title 2 CFR 200 - Appendix II to Part 200—*Contract Provisions for Non-Federal Entity Contracts Under Federal Awards*. Missing and outdated required contract provisions increase risks of non-compliance by subrecipients and subcontractors. Auditors reviewed four H-GAC standard contract templates used within the MPO for TxDOT agreements, including General, Intergovernmental, Regional DWI Task Force, and Clean Vehicles Program agreements. At the time of the audit, H-GAC was transitioning to a new contract management system and could not provide a Clean Vehicle Program contract template; therefore, a previously executed contract was tested for required provisions.

General and Intergovernmental contract templates contain outdated provision references to the Contract Work Hours and Safety Standards Act. The current template references 42 USC 327-332; however, the Contract Work Hours and Safety Standards Act is currently codified in 40 USC 3701-3708. The Regional DWI Task Force template and the executed Clean Vehicles Program contract do not contain required references to the contain Contract Work Hours and Safety Standards Act.

The Clean Vehicles Program contract also contains outdated provision references to the Clean Air Act and the Federal Water Pollution Control Act (Clean Water Act). The Clean Air Act is referenced as 42 USC 1857; however, it is currently codified to 42 U.S.C. 7401 et seq. The Clean Water Act is referenced as 33 USC 1368; however, is currently codified to 33 U.S.C. 1251 et seq.

All four contract templates reviewed are missing the required provision for Title 2 CFR 200, Procurement of Recovered Materials

*Recommendation: H-GAC should update contract templates to include accurate provisions. H-GAC should develop procedures to ensure periodic reviews and updates to required contract provisions are conducted.*

#### Internal Ethics and Compliance Program

H-GAC's Internal Ethics and Compliance Program (ICP) has not been formally approved by the H-GAC Board of Directors. As a subrecipient of Public Transportation Funds and Traffic Safety Funds from TxDOT, H-GAC is required to implement, and fully comply, with the requirements of Title 43 Texas Administrative Code 10.51, *Internal Ethics and Compliance Program*, prior to award and/or disbursement of grant funds. H-GAC policies incorporate required elements of Title 43 Texas Administrative Code 10.51; however, lack of an approved ICP increases risk of non-compliance and potential loss of Public Transportation Funds and Traffic Safety Funds from TxDOT.

*Recommendation: To continue receiving grant funds from TxDOT, H-GAC must implement an ICP in accordance with Title 43 Texas Administrative Code 10.51 that is approved by its Board of Directors.*



## Appendix 1



Houston-Galveston Area Council

August 13, 2018

Mr. Patrick McKinney  
Section Director, External Audit and Advisory Services  
Texas Department of Transportation  
125 E. 11<sup>th</sup> Street  
Austin, Texas 78701

RE: Management Response to Draft Audit of the Houston-Galveston Area Council Metropolitan Planning Organization

Dear Mr. McKinney:

I have reviewed the Draft Audit of the Houston-Galveston Area Council Metropolitan Planning Organization provided to me on August 3, 2018. I am pleased this audit found that H-GAC has implemented necessary controls to ensure appropriate grant funding management. Although the report contains no adverse findings, the report identified six recommendations to H-GAC management. Below, you will see our management responses to each.

*Recommendation:* It is recommended that H-GAC document its subrecipient risk assessment and the determination of necessary monitoring activities for each subrecipient.

*Response:* Agree. H-GAC's Internal Audit Manager is preparing procedures that will be implemented and will impact subrecipient monitoring in the Internal Audit Plan for the upcoming fiscal year. These procedures which will guide the determination of subrecipient risk and the necessary monitoring activities for each subrecipient.

*Recommendation:* H-GAC should update its processes and templates to ensure subrecipient agreements include all required federal award information. H-GAC should notify current subrecipients of required information if it was not provided in award agreements.

*Response:* Agree. DUNS and CFDA numbers will be integrated in all future contract templates. Subrecipients with active contracts will be notified with this information.

*Recommendation:* H-GAC should ensure all key project personnel assigned to TxDOT projects complete the required LGP training course every three years, as required.

*Response:* Agree. Of the two project managers identified lacking LGP training, one has subsequently received training and the second is awaiting an available training class.

*Recommendation:* H-GAC should implement procedures that ensure costs are submitted for reimbursement within required time periods after costs are incurred.

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Mr. Patrick McKinney, Texas Department of Transportation  
August 13, 2018  
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*Response:* Agree. All current subrecipient agreements require monthly billings and progress reporting by subrecipients. Management will develop a procedure for identifying subrecipients who fail to invoice within 30 days of required billing dates and flag these for subsequent follow-up by project managers.

*Recommendation:* H-GAC should update contract templates to include accurate provisions. H-GAC should develop procedures to ensure periodic reviews and updates to required contract provisions are conducted.

*Response:* Agree. Contract templates are being updated with latest federal citations and contract language.

*Recommendation:* To continue receiving grant funds from TxDOT, H-GAC must implement an ICP in accordance with Title 43 Texas Administrative Code 10.51 that is approved by its Board of Directors.

*Response:* Agree. The H-GAC Board of Directors will consider revision of H-GAC ICP based on TxDOT recommendations at its upcoming meeting on 9/21/18.

Please contact me should you need any further clarification of the management response to your recommendations.

Sincerely,



Alan C. Clark  
MPO Director

CC: Mr. Peter Smith, TxDOT  
Ms. Peggy Thurin TxDOT  
Ms. Naima Hafeez, TxDOT  
Mr. Charles Wemple, H-GAC  
Ms. Nancy Haussler, H-GAC  
Mr. Charles Hill, H-GAC